

Using CDBG and/or HOME Funds in a Section 202/811 Project

Developers of HUD-funded housing for the Elderly or Disabled can collaborate with HUD formula grantees. Advantages include

- Making the Section 202/811 application as competitive as possible;
- Enhancing an approved project's financial feasibility;
- Leveraging other funds to address the housing needs of the elderly and disabled

Philadelphia's Multifamily Program Center recently approved the following Section 202 project budget, including the sources of funds that were used to pay the development costs. In this example, the sponsor obtained \$1,035,000 in HOME funds to supplement its owner equity contribution of \$15,000 and HUD's \$7,535,100 capital advance.

Section 202 Sample Project Budget

Sources of Funds

Owner's Equity -	\$15,000
Capital Advance -	\$7,535,100
HOME Funds -	<u>\$1,035,000</u>
Total	\$8,585,100

Development Costs

Taxes/Insurance/ Title/ Recording	\$72,635
Legal Organization & Audit	\$37,000
Architectural Fee	\$416,000
Construction	\$7,580,843
Bond	\$90,200
Developer Fee	\$364,522
Mortgagor's Other Costs	<u>\$23,900</u>
Total	\$8,585,100

The following table identifies the costs associated with such projects and their eligibility to be covered by CDBG and/or HOME funds. Below that are charts describing the key criteria that must be met for each type of funding.

Project Costs

Section 202/811 Costs	Eligible CDBG Costs	Eligible HOME Costs
Construction Cost		
a. * New Construction	X	X
b. Rehabilitation	X	X
Architect Fees	X	X
Legal Fees	X	X
*Real Estate Taxes and Insurance During Construction	X	X
Fees for Permits, Soil Testing and Site Surveys	X	X
Title and Recording Fees	X	X
*Office Furniture, Common area Furniture and Maintenance Equipment	X	
Site acquisition costs	X	X
Rehabilitation Contingency Fee	X	X
Consultant Fees	X	X

* An eligible CDBG cost only if carried out by an organization that qualifies as a Community-Based Development Organization and other criteria are met. (See CDBG Table). For both the CDBG and HOME programs, there must be documentation that complies with the recordkeeping requirements at 24 CFR 570.506 and 24 CFR 92.508 respectively.

CDBG – Eligibility:	CDBG funds can be used to pay for:
New Construction	New construction – Other than as housing of last resort, the actual cost of housing construction is eligible only if it is carried out by an eligible Community Based Development Organization (CBDO) and the project to be carried out qualifies as a neighborhood revitalization, economic development or energy conservation project, as defined in the regulations at 24 CFR 570.204(a)(1)(2) or (3).
Rehabilitation	<p>Rehabilitation - The rehabilitation of multifamily properties is eligible under 24 CFR 570.202(1).</p> <p>Refinancing Existing Debt – The cost to refinance existing debt secured by a property is eligible, if entitlement grantee determines and documents that refinancing is necessary to achieve local community development objectives.</p>
New Construction/ Rehabilitation	<p>Acquisition - CDBG funds can be used to acquire a site for a Section 202/811 project.</p> <p>Architect and legal fees could be paid for as part of the cost of new construction or rehabilitation.</p> <p>Audit Cost – Owner’s Cost Certification.</p> <p>Clearance Activities – CDBG can be used to clear a Section 202/811 site. This includes the elimination of contaminants.</p> <p>Environmental Costs – CDBG may be used for the reasonable costs of project specific environmental assessments and clearances for activities eligible for CDBG assistance.</p> <p>Fair Housing Initiatives CDBG administrative funds may be used to affirmatively market the project.</p> <p>Site Improvements – Improvements can be made to publicly or CBDO owned site that will be sold to a Section 202/811 project sponsor.</p> <p>Privately owned utilities – CDBG funds can be used to acquire, construct, reconstruct, rehabilitate or install the distribution lines and facilities of privately owned facilities.</p> <p>Relocation Cost – CDBG funds can be used to comply with requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) and/or Section 104(d).</p> <p>Soft Costs – If a waiver of 24 CFR 570.206(g) is secured from HUD, prior to the commitment/obligation of funds, the costs identified in sub paragraphs 1-6 can be paid for with CDBG funds.</p>

	Staff Delivery & Overhead Costs – The compensation and related expenses necessary to pay staff responsible for the implementation of an eligible activity funded entirely or partially with CDBG funds.
Compliance With A National Objective	Activities associated with an Section 202/811 new construction project can qualify under the Benefit To Low/Moderate Income national objective if at least 51% of the units will be occupied by low/moderate income households at “affordable rents” as determined by each entitlement community.

HOME – Eligibility:	HOME can be used to pay for:
New Construction	The construction of a Section 202/811 project.
Rehabilitation	The Cost to refinance existing debt secured by property, if determined by entitlement grantee that refinancing is necessary to achieve local community development objectives.
New Construction/ Rehabilitation	<p>Acquisition – HOME funds can be used to acquire a site. Site may contain standard housing.</p> <p>Architect and legal fees could be paid for as part of the cost of new construction or rehabilitation.</p> <p>Clearance Activities –HOME can be used to demolish existing structures.</p> <p>Environmental Costs –HOME may be used for the reasonable costs of project specific environmental assessments and clearances for activities eligible for CDBG assistance.</p> <p>Payment of loans – Construction, bridge financing and guaranteed loans can be paid for if certain conditions are met (24 CFR 92.206(g)).</p> <p>Impact fees – Such fees charged by a local jurisdiction can be paid with HOME funds.</p> <p>Initial Operating Deficit Reserve – Shortfall between the difference in the operating subsidy and rent compared to the projected operating expenses.</p> <p>Refinancing – Guidelines must be incorporated into Consolidated Plan and meet minimum standards reflected in regulations at 24 CFR 92.206(b)(2).</p> <p>Relocation Cost – HOME funds can be used to comply with requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) and/or Section 104(d).</p> <p>Site Improvements – Improvements can be made to site; and can be privately owned.</p>

	<p>Staff Delivery & Overhead Costs – Cost directly related to carrying out a project. Staff and overhead cost for a multifamily project must be allocated among HOME-assisted units. (See 24 CFR 92.206(d)(6).</p> <p>Utility connections – This can include off-site connections from the property line to the adjacent street.</p>
Affordability	The requirements at 24 CFR 92.252 are applicable to HOME assisted units in a Section 202/811 project.

For a rental project, the minimum amount of HOME funds that must be invested is \$1,000 times the number of assisted HOME units in a project. Also, there is a 25% match requirement. If a Section 202/811 sponsor has local or private dollars invested in a project, it is possible that the local or private contribution could qualify as match.

The percentage of the cost of the Section 202/811 project would be the same percentage as the proportion of the total number units in the project are HOME assisted units. For example, if 25% of the units in the project will be HOME assisted, 25% of the costs noted could be paid with HOME dollars.